IQM3005

LEVEL 3 · CONTROLLED ASSESSMENT

INTO QUALIFICATIONS

Economics

Component 3: Paper 2 written examination

Candidate question paper

Duration
2 hours 30 minutes

Total marks
60

Assessment window
To be assigned before issue

Assessment set
Set S of 2026

Response instruction
Write all answers in the separate answer booklet.

Release timing
exam release

Paper
Paper 2

Assessment set ID
2026-S

INTO QUALIFICATIONS LEARNER ID

DELIVERY CENTRE ID (OPTIONAL)

EXAM DATE
_____

ASSESSMENT SET
Set S of 2026

Do not open this paper until instructed. Record every answer in the separate answer booklet.

FOR MARKER USE ONLY

Marker initials	**Mark / 60**

Instructions

- Follow the answer route stated at the start of each section.
- Write all answers in the separate answer booklet and identify each question clearly.
- Show all working where relevant.
- A non-programmable, non-graphing scientific calculator is permitted.
- The mark allocation is shown beside each question.

Answer all 20 multiple-choice questions in Section A, all four short-answer questions in Section B and one question from Section C. Write all answers in the separate answer booklet. For Section A, select one option per question. Clearly identify your selected Section C essay. Use relevant economic theory. A labelled and explained diagram is optional in Section C and may support your reasoning; no diagram is required for full marks. A non-programmable, non-graphing scientific calculator is permitted. Calculators with CAS, text/image/document storage or internet capability, and phones, tablets and smart watches, are not permitted. No additional materials or AI are permitted.

Section A · Multiple-choice questions

Answer all 20 questions. 20 marks.

Question A1 · 1 mark

An economy moves along a straight production possibility frontier from 100 units of food and no machines to no food and 50 machines. What is the opportunity cost of one additional machine? 1

A. 0.5 units of food
B. 2 units of food
C. 50 units of food
D. 100 units of food

Question A2 · 1 mark

Which combination characterises monopolistic competition? 1

A. Many firms, identical products and relatively free entry.
B. Few dominant firms, differentiated products and substantial entry barriers.
C. One supplier, no close substitutes and substantial entry barriers.
D. Many firms, differentiated products and relatively free entry.

Question A3 · 1 mark

A harvest failure reduces the supply of coffee. Demand is unchanged. With conventional downward-sloping demand and upward-sloping supply, which change is most likely? 1

A. Lower price and higher equilibrium quantity
B. Lower price and lower equilibrium quantity
C. Higher price and lower equilibrium quantity
D. Higher price and higher equilibrium quantity

Question A4 · 1 mark

A firm raises its price by 10%. Quantity demanded falls by 4%. What happens to total revenue between the two positions? 1

A. It rises by 5.6%.
B. It rises by 6.0%.
C. It falls by 4.0%.
D. It falls by 14.0%.

Question A5 · 1 mark

Which pair of characteristics defines a pure public good? 1

A. Rivalry and excludability
B. Non-rivalry and non-excludability
C. A zero price and government ownership
D. Positive profit and universal demand

Question A6 · 1 mark

A factory creates pollution costs borne by local residents. With no tax or other correction, which relationship represents this negative production externality? 1

A. Marginal social cost is below marginal private cost.
B. Marginal social benefit is zero.
C. Marginal social cost exceeds marginal private cost.
D. Marginal private cost includes every cost borne by residents.

Question A7 · 1 mark

The law of diminishing marginal returns applies when: 1

A. all inputs are increased in the same proportion in the long run.
B. total output must fall whenever another worker is employed.
C. average fixed cost rises as output increases.
D. successive units of a variable input eventually add less output while at least one input is fixed.

Question A8 · 1 mark

A firm has the following possible weekly output levels. At outputs of 1, 2, 3 and 4 units, total revenue is £8, £16, £24 and £32 respectively; total cost is £10, £15, £22 and £33 respectively. Which listed output gives the highest profit? 1

A. 1 unit
B. 2 units
C. 3 units
D. 4 units

Question A9 · 1 mark

In the standard model of a perfectly competitive industry in long-run equilibrium, firms: 1
A. all earn persistent abnormal profit because entry is blocked.
B. set price above average revenue.
C. produce where marginal cost exceeds price.
D. earn normal profit and produce at minimum average cost.

Question A10 · 1 mark

A large airline delays changing its fares until it has considered how its two main rivals might respond. This behaviour most directly illustrates: 1
A. interdependence in an oligopoly.
B. the absence of barriers to entry in perfect competition.
C. non-excludability in a public-good market.
D. a legal agreement to fix prices.

Question A11 · 1 mark

In a simple closed economy with no government, the marginal propensity to consume is 0.8. What is the expenditure multiplier? 1
A. 0.2
B. 0.8
C. 5
D. 8

Question A12 · 1 mark

Which transaction is investment in the expenditure measure of aggregate demand? 1
A. A household buying existing company shares from another household
B. A manufacturer buying a newly produced machine
C. A bank exchanging one foreign currency for another
D. A student moving savings between bank accounts

Question A13 · 1 mark

An economy’s nominal GDP rises from £100 billion to £110 billion. Its GDP price index rises from 100 to 110. What is the percentage change in real GDP? 1
A. −10%
B. +10%
C. +21%
D. 0%

Question A14 · 1 mark

A worker loses a job after a factory automates production and lacks the skills required for local vacancies. This is most directly an example of: 1
A. structural unemployment.
B. seasonal unemployment.
C. voluntary retirement.
D. demand-pull inflation.

Question A15 · 1 mark

In a short-run Phillips curve model with expected inflation unchanged, an increase in aggregate demand from a position with spare capacity is most likely initially to cause: 1
A. lower inflation and lower unemployment.
B. higher inflation and lower unemployment.
C. higher inflation and higher unemployment.
D. a permanent fall in the natural rate of unemployment.

Question A16 · 1 mark

A government receives £90 billion in tax revenue and spends £100 billion in the same year. Ignoring other receipts and payments, its budget position is: 1
A. a £10 billion surplus.
B. a £90 billion deficit.
C. a £10 billion deficit.
D. a £190 billion surplus.

Question A17 · 1 mark

A central bank raises interest rates to reduce inflation. Which condition most strongly limits how quickly this policy reduces household consumption through mortgage payments? 1
A. Most mortgage borrowers have fixed rates that will not reset for several years.
B. Most borrowers have variable mortgage rates that reset immediately.
C. Households' mortgage payments rise immediately after the rate increase.
D. Consumption responds strongly to changes in disposable income.

Question A18 · 1 mark

Using the same amount of resources, country X can produce either 12 tonnes of wheat or 6 metres of cloth; country Y can produce either 8 tonnes of wheat or 8 metres of cloth. Opportunity costs are constant. Which specialisation follows comparative advantage? 1
A. X in cloth and Y in wheat
B. X in wheat and Y in cloth
C. Both countries in wheat because wheat output is higher
D. Neither country can gain because X produces more wheat

Question A19 · 1 mark

The exchange rate changes from 1.00 unit of domestic currency per US dollar to 1.25 units per US dollar. An imported product's price remains US$80. Ignoring taxes and other costs, what is its new domestic-currency price? 1

A. 64 units
B. 80 units
C. 81.25 units
D. 100 units

Question A20 · 1 mark

In Economy T, globalisation has expanded trade. Exporters hire more workers, while import-competing firms cut jobs. Many exporters use imported components. A tariff on those components is proposed to protect domestic component producers. Which judgement is best supported? 1

A. The tariff should raise total employment because new component jobs will exceed any exporter job losses.
B. Export growth shows that displaced workers can find equivalent jobs, so protection offers little employment benefit.
C. Protection may support component producers but weaken exporters, so its overall employment effect is uncertain.
D. Component job losses show that globalisation reduces national employment, so protection should restore the lost jobs.

Section B · Short-answer questions

Answer all four questions B1–B4. 20 marks in total.

Question B1 · 4 marks

A firm raises its price by 8% and quantity demanded falls by 12%. (a) Calculate the price elasticity of demand (PED). Show your working. [2] (b) Explain the likely effect of the price rise on the firm's total revenue. [2] 4

Question B2 · 6 marks

A factory has a marginal private cost of £8 per unit and creates an estimated marginal external cost of £3 per unit. (a) Calculate marginal social cost. [1] (b) Explain why an unregulated market may overproduce this good. [3] (c) Explain one limitation of using a £3 per-unit tax to correct the market failure. [2] 6

Question B3 · 5 marks

In a closed-economy model, the marginal propensity to consume is 0.75 and planned investment rises by £20 million. (a) Calculate the theoretical total change in national income. Show your working. [2] (b) Explain why imports may make the actual change smaller and judge whether the £80 million estimate is likely to be achieved. [3] — 5

Question B4 · 5 marks

A central bank raises interest rates. Most household mortgages are fixed for three years, while firms rely heavily on variable-rate loans. Explain one channel through which higher interest rates may reduce inflation, and assess how the information affects the speed and effectiveness of the policy. [5] — 5

Section C · Macroeconomics

Answer one of C1 or C2. 20 marks.

Question C1 · 20 marks

Constructed context: Economy R has weak consumer spending, unused factory capacity and rising unemployment. The government proposes extra infrastructure spending financed by borrowing. Imports account for a substantial share of household purchases, and some construction projects may take several years to begin.
Evaluate the effectiveness of this fiscal policy in reducing unemployment in Economy R. Use relevant economic theory. A labelled and explained diagram is optional and may support your reasoning; no diagram is required for full marks. — 20

Question C2 · 20 marks

Constructed context: Economy S has a persistent current-account deficit. Its currency depreciates under a floating exchange rate. Exporters report spare capacity, but many manufacturers rely on imported fuel and components. Overseas demand is growing slowly, and existing trade contracts fix some prices for several months.
Evaluate whether currency depreciation is likely to improve the current-account balance of Economy S. Use relevant economic theory. A labelled and explained diagram is optional and may support your reasoning; no diagram is required for full marks. — 20